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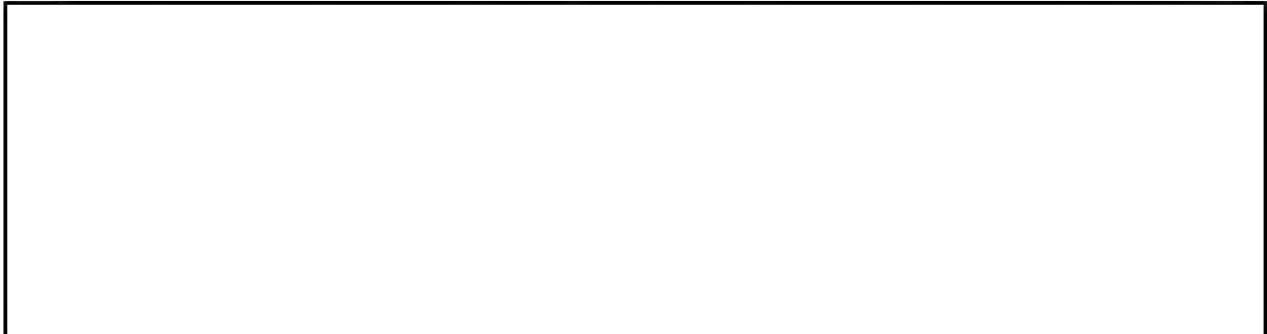
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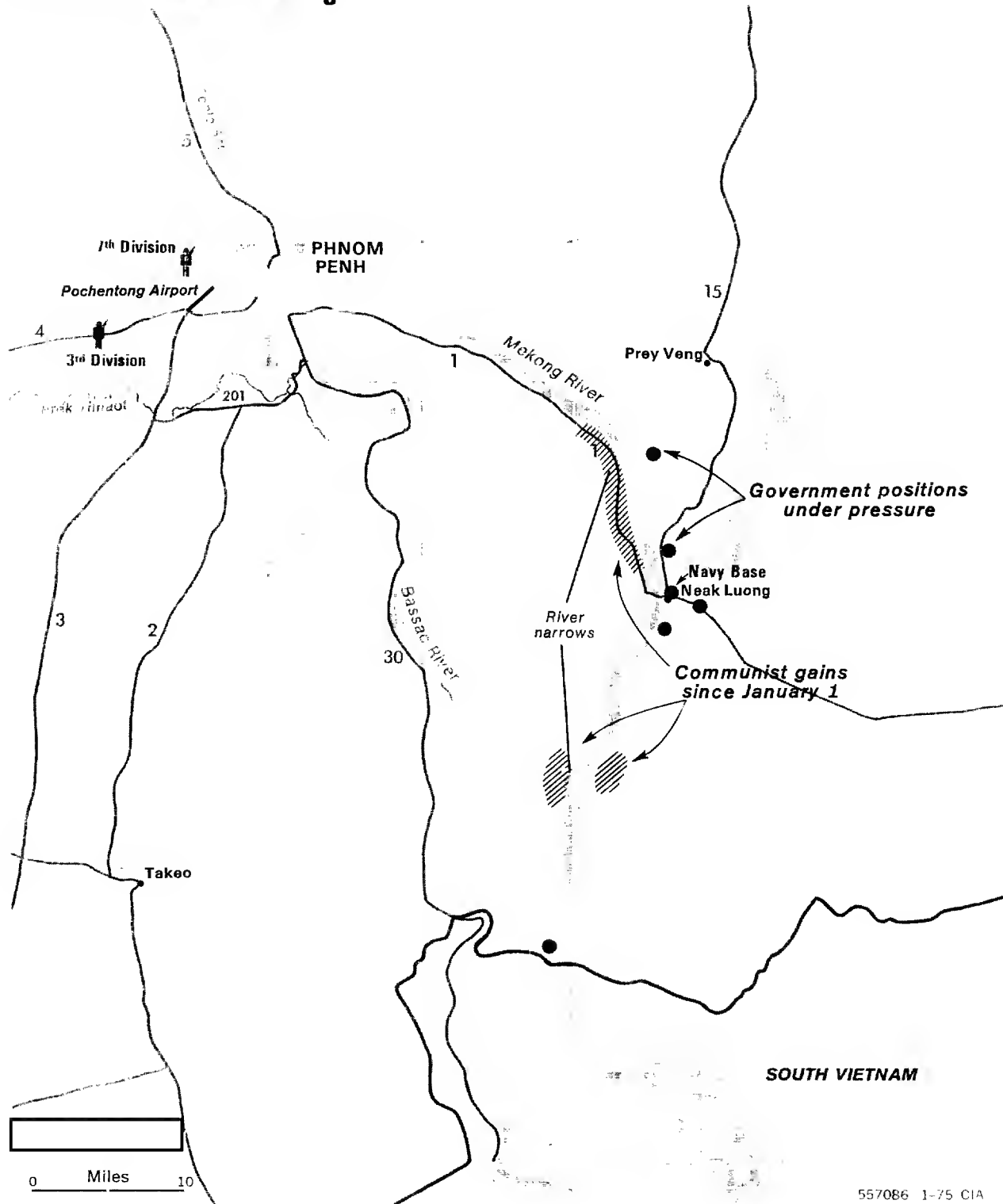
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Cambodia: Lower Mekong



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CAMBODIA

Government forces have regained the initiative around Phnom Penh, but the situation along the lower Mekong River is still serious.

Elements of the Cambodian army's 7th Division, with the help of heavy air support, have relieved all previously isolated positions along the capital's northwestern defenses, and units of the army's 3rd Division continue to get the better of the fighting near Route 4 southwest of Phnom Penh. Insurgent gunners remain within range of Pochentong Airport and the city proper, but shellings have been sporadic and ineffective.

If the situation around Phnom Penh continues to improve, military leaders may soon be able to turn their attention to the Mekong River corridor southeast of the capital. Government forces there have been unable to regain any ground along Route 1, and some ten miles of the highway paralleling the Mekong upstream from the navy base at Neak Luong remain in Communist hands. Government positions on the east bank of the river opposite Route 1 are under pressure.

Government holdings south of Neak Luong have been reduced to only a few small outposts near the South Vietnamese border.

Although there is some concern about security along the river, a resupply convoy apparently is still scheduled to go upriver to Phnom Penh late this week. The supply situation in the capital is not critical. Rice and most fuel stocks are sufficient to meet civilian and military needs for a month, and enough ammunition is on hand to support the present level of fighting at least through the end of January. Past experience, however, has shown that civilian and military morale is affected if stocks sink too low. The air force and navy will have to bear sole responsibility for the security of river shipping through critical areas until ground units are able to retake some of the lost riverside positions.

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BOLIVIA

President Banzer has moved against some of his enemies for violating a ban on political criticism, but his efforts to enact austerity measures could still engender serious protests.

The government is attempting to exile two former cabinet ministers, Colonel Miguel Ayoroa, and his cousin, Colonel Jose Patino, who have been accused of plotting; others are likely to follow soon. [REDACTED]

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[REDACTED] Earlier this week, Ayoroa published a newspaper article that strongly criticized Banzer's recent cancellation of national elections and accused his military advisers of opportunistic complicity in that action.

The government, meanwhile, is attempting to avoid a major budgetary deficit by raising prices for fuel, power, and rail transportation and by increasing some export taxes. To soften reaction to these unpopular measures, Banzer reportedly intends to enact them piecemeal, rather than announce a new economic program. He also plans to grant a 20-percent wage concession to government workers. By raising defense expenditures substantially, he also hopes to secure sufficient support among the military to control reaction to the austerity measures.

The wage boost, however, is unlikely to keep up with inflation, expected to run between 30 and 35 percent. Moreover, increases in transportation costs will affect the flow of agricultural goods and could spark another round of peasant riots like those that followed price hikes on food staples last year.

If Banzer's economic moves are taken with sufficient caution, he may encounter little resistance. In the case that major strikes and protests occur, however, he could

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be in serious trouble with the military, his only significant source of support. Recent statements by senior military officers indicate that army backing for his administration has already eroded, and new antigovernment demonstrations could become a catalyst for the replacement of Banzer with someone more popular.

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MEXICO

Mexico has decided not to seek full membership in OPEC. Newly appointed Secretary of National Properties Francisco Javier Alejo asserted in his first public statement on Saturday that Mexico should remain in consultation with OPEC, but that it should not become a member. A ministry spokesman later said that Mexico will be an observer at OPEC meetings, but that it has no interest in membership.

The statements followed by only one day the surprise firing of the leftist former secretary of national Properties, Horacio Flores de la Pena, who vigorously supported Mexican membership in OPEC. Pemex, the state oil monopoly, had opposed the move, maintaining that Mexico can enjoy the benefits of high oil prices without joining the organization. President Echeverria may have been influenced to accept the Pemex argument because OPEC membership would mean exclusion from preferential treatment under the US Trade Reform Act.

Last week, Mexico denied reports from Kuwait that it was seeking full membership in OPEC and was surprisingly critical of OPEC countries for not using their wealth to better the lot of their citizenry. Criticism of OPEC and emphasis on the fact that the oil industry is the exclusive domain of the state probably are attempts to deter domestic charges that Mexico is not joining OPEC because of US pressure brought about by the trade act. Mexicans are very sensitive to such pressure and the trade act has been sharply criticized in the Mexican press.

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TURKEY

The Nationalist Front, a four-party coalition organized by Justice Party leader Demirel, is pressing President Koruturk to give it authority to try to form a government and end the political stalemate that now is nearly four months old.

In a statement released Tuesday, the Front acknowledged that it controlled only 218 votes in parliament, eight short of an absolute majority. It said, however, that if the President did not believe a party outside the coalition could successfully form a government, he should designate the National Front. Leaders of the Front apparently believe they could pick up the necessary votes from among the "fence sitters" in the Democratic Party, which so far has refused to join the coalition.

President Koruturk has shown some reluctance to turn to the rightist coalition. He reportedly would prefer a government headed by former prime minister Ecevit, but if the Nationalist Front can demonstrate strong support he may be compelled to give Demirel a chance.

Both Demirel and Ecevit have sought to obtain a parliamentary majority by bringing the rightist Democratic Party into a coalition, but so far the members of that party have been unable to agree to accept either offer. Instead of capitalizing on its role as the swing party, the Democratic Party is on the verge of being torn apart by the issue. Demirel and the Justice Party stand to benefit the most if the Democrats split at their party congress next month.

Ecevit, who heads the left-of-center Republican People's Party, is also trying to gain the support of the major political parties for a conference to decide on a date for early elections. His recent trip to Cyprus was probably intended in part to enhance his personal popularity in Turkey, and his hard-line remarks may have been intended to allay the fears of those who are still

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wary of his leftist political leanings. Ecevit may also hope that the military, which prefers him to Demirel and is becoming increasingly unhappy over the political disarray, will press the other parties to accept his scheme for early elections.

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CYPRUS

The intercommunal talks on Cyprus will soon turn to substantive political questions, but a period of hard, and probably lengthy, bargaining lies ahead.

Greek Cypriot negotiator Clerides and Turkish Cypriot negotiator Denktash yesterday agreed to continue their talks on humanitarian matters and to commence talks--for the first time since the coup in July--on the substantive issues involved in a final political settlement. According to the communiqué, the substantive discussions will deal initially with the powers and functions of the central government in the proposed federal state. The question of the size and shape of the Greek and Turkish Cypriot areas will be tackled later.

The two sides are poles apart on both issues and compromise will be difficult. The Greek Cypriots favor a strong central government and several Turkish Cypriot cantons, while the Turkish Cypriots want a weak central government and one large, geographically based zone for themselves.

The negotiators are likely to move first to settle the remaining humanitarian issues. Denktash, in particular, is expected to seek the release of Turkish Cypriots living in the south before entering into serious political discussions.

Procedures for the talks will be discussed at the next meeting between Clerides and Denktash, scheduled for January 14.

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UK

In a sharp warning to striking auto workers last weekend, Prime Minister Wilson said the Labor government could no longer justify subsidizing companies where work stoppages were a regular pattern. He suggested that "avoidable" strikes are hurting the economy, particularly the country's efforts to increase exports.

Wilson's speech was prompted by a strike of 250 workers at a British Leyland plant that resulted in the lay-off of 12,000 other workers at the plant. Last month, British Leyland asked for and received government aid. The Prime Minister probably is hopeful that his threat, along with the government's current informal arrangements with trade unions, will avert the need for statutory wage and price controls and encourage the use of established arbitration machinery.

Reactions to Wilson's threat were varied. Jack Jones, leader of the country's largest trade union, which includes the auto workers, called on Wilson to meet with union leaders to discuss the issues raised in the speech. Jones suggested a thorough review of current problems in industrial relations to determine the extent to which management practices and labor policies of the previous Tory government are responsible for the unrest. He urged a review of wage structures and discussion of measures for increased worker participation in managerial decisions. Jones also encouraged union members to use the new conciliation and arbitration services recently set up by the Labor government, rather than to resort to wildcat strikes to express displeasure with management practices.

The record of the last nine months does not hold out much promise that government dialogue with the unions will relieve Britain's labor problems. Despite Labor's close links to the unions, earlier government efforts to achieve worker cooperation have been largely unsuccessful. Strike activity has continued at record levels since the Labor government came to power in March 1974. Voluntary wage restraints have had little impact on wage

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settlements, even though workers have won substantial legislative gains from the Labor government.

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WEST GERMANY

The real gross national product in West Germany dropped by 1.5 percent during the second half of 1974, pushing down growth for the year to a mere 0.4 percent.

A surge in exports was the only bright note in the economy last year. Foreign sales rose 32 percent in value--about 12 percent in volume--yielding a record trade surplus of some \$24 billion. Export volume fell slightly in late 1974, however, contributing strongly to the second-half downturn.

In contrast, domestic demand slumped all year. The West German consumer acted with caution, spurning purchases of new cars and houses, as unemployment affected more than 800,000 persons. Despite hefty pay raises of 12 to 13 percent, real private consumption rose by less than 0.5 percent. Investment spending was even more dismal; it dropped by more than 10 percent from the level in 1973, as construction slowed and poor sales prospects led to a decline in plant and equipment investment.

Because recovery is not expected before mid-1975, real growth next year will, at best, reach 2 percent. A tax reform effective on January 1 and the coming round of pay raises will enhance consumer spending power, but West Germans may continue to postpone purchases because of economic uncertainties. The 7.5-percent rebate on investment announced last month by Bonn is likely to boost capital spending only moderately. Export growth will slow, probably reducing the trade surplus somewhat.

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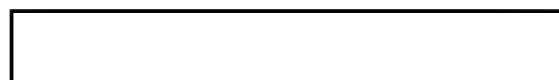
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